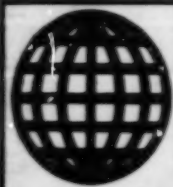


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Keidanren's View on Revision of Antimonopoly Law

41060060 Tokyo KEIDANREN GEPPU in Japanese
Feb 88 pp 42-45

[By Reiichi Yukimura, chairman of the Antimonopoly Law Subcommittee of Keidanren's Industrial Problem Committee and vice president of Asahi Chemical Industry Co., Ltd.: "Changes in the Economic Environment and the Proper Nature of Policy on Competition"]

[Text]

Introduction

In 1983 Keidanren studied in a comprehensive manner problem points of the current antimonopoly law, which was revised and strengthened in 1977, and collected the studies as "Views Regarding Antimonopoly Law Problems," but subsequent changes in the environment which surrounds enterprises have been great, and have also become harsher. Therefore, beginning in March 1987, this subcommittee held hearings for concerned persons regarding such things as problem points in the current antimonopoly law and problem points which each industry is facing.

The result was that, although it remains a fact that the current Antimonopoly Law contains many provisions with problems which were pointed out by the Keidanren view of 1983, when we considered the actual situation of application of the Antimonopoly Law, the majority view held that we should search for substantive policies to solve immediate problems, rather than pressing in a doctrinaire manner for revision of the law or improvement in its application.

Therefore, rather than quickly putting together opinions on revision, the Antimonopoly Law Subcommittee inaugurated a working group in June 1987 to put in more study in a specialized and objective manner on the problems we are facing and to put the arguments in order. Then, among the changes in the environment that surrounds enterprises we noticed in particular the fact that economic friction with foreign countries has risen to an all time high level and the fact that under the rapid and drastic strengthening of the yen it has become necessary for enterprises, too, to execute strategies which respond to changes in the environment, so we conducted an examination with the focus narrowed down to two points: (1) discussions on an industry-base for the purpose of solving economic friction with foreign countries and (2) problem points concerning the Antimonopoly Law in terms of furthering enterprise strategies which respond to changes in the environment. Furthermore, as an off-link, in November 1987 we also conducted an on-the-spot survey in America for about 2 weeks, and we recently put together the results of our examination as a study group. In this article I would like to report on a summary of the results of the working group's examination.

Discussions on an Industry-Base for the Purpose of Solving Economic Friction With Foreign Countries

(1) Present State and Problems of Industry-Base Discussions

For Japan, solution of economic friction with foreign countries, which is centered on trade imbalance, is also a pressing important task in political terms, to say nothing of economic terms. It is conceivable that discussion among members of Japanese industries, or with opposite-number industries overseas, is one effective means of solving this. But, even if it were for the purpose of solving a trade imbalance, for an industry to agree independently upon quantitative quotas or price increases would violate Japanese and U.S. antimonopoly laws as an action which limits competition. Therefore, although free trade is a fixed line of Japanese national policy, Japan responds to the problem of trade friction with foreign countries by self-imposed controls on exports as emergency-evacuation type measures, and is implementing them based on administrative guidance and legislation of exemption from application of the law.

However, with U.S. and EC [European Community] antimonopoly laws, so-called extra-territorial application is carried out in which the laws are taken to apply even to acts performed outside those countries if such acts exert an influence on the markets in those countries; so, unless it is something based on clear national compulsion, there is danger that even self-imposed controls on exports for the sake of avoiding or easing economic friction with foreign countries will be contrary to American and EC antimonopoly laws. Moreover, in America, even with self-imposed controls carried out at the request of the U.S. side, there is danger of being sued by a private individual for damages of three times the amount. In the case of the current self-imposed export controls, there are some cases in which Japan has received letters from U.S. antitrust authorities saying that they believe there is no problem in terms of U.S. antitrust law; but even so, the danger of a private lawsuit has still not been resolved.

(2) The U.S. Side's Reaction Regarding Industry-Base Discussions

At present discussions among the members of an industry are being conducted to a certain extent by devising topics and methods of discussion so that they will not become problems in terms of antimonopoly law, but it is difficult to pursue a result which is immediately effective from the point of resolution of friction. In any case, this is a problem which involves the antimonopoly law of the nation with which one is dealing, so, in order to explore the actual situation, in America we conducted an on-the-spot investigation based on an exchange of views with persons connected with antitrust policy. According to the result of that investigation, although the U.S. side said that discussions extending to quantities or price are questions that touch upon the basis of the antitrust law,

so in the final analysis they can absolutely not be allowed, it showed a reaction to the effect that there is a possibility if the discussion includes such things as exchanging general information regarding markets, and that the possibility is stronger still if it is combined within an official framework.

(3) Toward Realization of Industry-Based Discussions

Today, when intergovernment negotiations involving trade and economic problems have become an everyday occurrence, it is conceivable that the significance of discussion by and among industries, which have a full knowledge of the actual situation, will become ever greater in the future, at least in the sense of supplementing negotiations between governments. Judging from current domestic and foreign antimonopoly-law systems, there are very difficult aspects in allowing approval of industry-based discussions. But industry-based discussion that involves economic friction with foreign countries is not simply a problem of competition policy; it is a task which involves trade policy and diplomatic policy as well, so it is necessary to appeal to the Japanese Government to grasp it as a task for the entire government and to consult and negotiate with the governments of opposite-number countries in such a way as to make it possible from a broader perspective. Along with that, it is probably vital to go on educating people at the private-sector level too, by arguing this necessity widely within the international economic community at every opportunity.

When, at a meeting with the U.S. Federal Trade Commission, we said "it is a contradiction for the antitrust authorities to value free trade on the one hand, and the U.S. Trade Representative and Congress to exert pressure on Japan for such things as self-imposed export controls which hinder competition" the responsible department chief, while stating that it was his personal view, responded by saying "since the antitrust law exists, it is impossible to change the present policy, but I fully understand Japan's position, and sympathize with it." This statement has no meaning in and of itself, but the Japanese side needs to foster this kind of atmosphere in the future.

Diverse Enterprise Strategies for Responding to Changes in the Economic Environment

(1) The Advantages of Holding Companies in Enterprise Management

Our examination emphasized those provisions of antitrust law which become problems in terms of furthering enterprise strategies to respond to such major changes in the economic environment as the rapid internationalization of Japan's economy, intensification of economic friction with foreign countries, sudden strengthening of the yen and the advance of the technological revolution and the change to the information age, especially the provision prohibiting holding companies.

In Japan's Antimonopoly Law, pure holding companies are prohibited across the board in Section Nine, but in Europe and America they are recognized in principle, and are widely used. According to such things as our survey on our visit to America, the following kinds of advantages of holding companies are conceivable.

(a) Since horizontal integration of enterprises which preserves independence in the aspects of organization, personnel and assets becomes possible, it becomes possible to manage each business field based on perspectives and ideas which are unhampered by it being a main business or a business that has been in the family for generations, and it becomes easy to make judgments from a long-term perspective and a strategic perspective without being fettered by ordinary day to day business.

(b) Enterprise restructuring becomes simple, so it can be used as a means of enterprise expansion and survival. Particularly in penetration of a new industrial field, it is possible to use a holding company to carry out mergers and acquisitions, and make good use of the know how and specialized knowledge of the enterprise one has bought up.

In America, mergers and acquisitions are thought to promote efficient enterprise management by permitting the replacement of incompetent managers by competent managers. Furthermore, since mergers and acquisitions are an effective method when penetrating a new field, they are highly valued in terms of furthering enterprise restructuring, so U.S. enterprises considered it natural to make use of holding companies, which are effective and easy to use in terms of carrying out mergers and acquisitions.

(c) Holding companies are ideal for promoting the development of Japanese enterprises into multinationals and their overseas development (overseas division of labor, etc.). For example, such development as doing research and development and administration at the Japanese headquarters, and doing production and sales at a South-east Asian subsidiary becomes possible.

(2) The U.S. Side's View of Holding Companies

We solicited the views of the U.S. antitrust authorities, U.S. enterprises, lawyers and university professors concerning problems regarding holding companies, and they were in general agreement on the following points.

(a) Holding companies as such are neutral in terms of the Antitrust Law, so to prohibit them across the board is foolish, and is an out-of-date regulation. There is no problem unless the holding company limits competition in a substantive manner.

(b) In addition to being able to use holding companies as an effective means of enterprise restructuring, one can also make good use of their advantages in terms of tax

laws, and such advantages as utilization of the management systems or specialized knowledge of enterprises bought up through the use of holding companies. Whether to use a holding company or a divisional system when restructuring an enterprise is purely a question of management judgment, it is not a question of antitrust law.

(c) The fact that holding companies are not recognized under Section Nine of the Antimonopoly Law may become unfair in the future when U.S. enterprises make inroads into Japan, but under present conditions it is not yet a problem.

The above are the advantages of holding companies and the view of the U.S. side; when these are considered, the alternative of controlling only those holding companies that are harmful in terms of hindering competition is more in agreement with the original philosophy of antimonopoly law, and when one considers the internationalization of Japan's economy, it is a problem for Japan alone to be prohibited from having holding companies. It is probably necessary to immediately promote readying of the Antimonopoly Law, the Trade Act and other related laws and regulations to accompany the introduction of holding companies. That, too, should be investigated by Japan, independently and with an open mind, not grappled with because Japan receives outside pressure from such countries as America.

However, the opinion is also heard that if Japan were to revise or abolish Section Nine of the Antimonopoly Law there would be danger of producing in America the misunderstanding that Japan was establishing a new non-tariff barrier in order to make penetration of Japan by U.S. enterprises difficult, so it would probably be necessary to take sufficient care not to cause misunderstanding on this point.

(3) Concerning Regulation of the Total Amount of Stock Held and Regulation of Mergers

Concerning regulation of the total amount of stock held (Section Nine, Part Two of the Antimonopoly Law), companies that come into question at present are probably extremely exceptional, but since it is unclear whether the general concentration of economic power hinders competition, there is scant reason why the total amount of stock held must be uniformly limited in addition to prohibiting, in Section 10 of the Antimonopoly Law, stock-holding which restricts competition. Moreover, in regard to regulation of mergers and transfer of business, it is a problem to apply the reporting and collection provisions relating to the criteria for priority screening of mergers and raising of prices in concert just as if they were prohibiting provisions, without considering fully the actual situation of the items covered; in addition to which it is probably necessary to expand the items covered by the simple mode of reporting mergers.

Trends in Antitrust Policy in America

In addition, we conducted an international comparison of antimonopoly-law systems, with such things as our survey in America for our reference. In America such things as the system of antitrust law and the implementing agencies are pluralistic and complicated, but since 1981, although rigorous regulation is being carried out against cartels, such things as easing of regulation concerning enterprise mergers and holding companies has been promoted under the influence of the so-called Chicago School, which emphasizes economic analysis. In the survey on our trip to America, too, U.S. enterprises were evaluating the present flexible operation of the antitrust law in a favorable manner. We were told that at present there are five bills for revision of the antitrust law before Congress, and that among them there is hope for passage of the "1987 Law on Holding of Concurrent Posts by Directors," which increases the scale of enterprises for which concurrent service of directors is prohibited, but that there is little hope for the others. Moreover, it was anticipated that the trend of present antitrust policy would probably not change radically even if the administration changes, and even if such things as regulation of mergers were to become stricter.

Conclusion

The foregoing is a summary of the results of the investigation by the working group of the Antimonopoly Law Subcommittee. The subcommittee would like to listen more fully to the opinions of each industry and go on investigating still more deeply, with the results of this working party's investigation as the point of departure for discussion. In this process we plan to strive also to promote understanding concerning the views of industry circles on the current antimonopoly Law through an exchange of the opinions of all concerned persons. The environment which surrounds enterprises has changed further, and we feel that problems which should be studied in terms of their relation to competition policy will cover a various and diverse range in the future as well, so we would like to ask each of you for your cooperation and support.

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Journal Describes Okinawa Free Trade Zone
41060057 Tokyo *FINANCE in Japanese* Jan 88 p 75

[Finance Department of the Okinawa General Bureau]

[Text] Introduction

The director general of the Okinawa Development Agency, in accord with the Okinawa Promotion and Development Special Measures Act passed last December, designated a "Free Trade Zone," as had been requested by Okinawa Prefecture as an important project in the latter phase of the Second Okinawa Promotion and Development Plan (FY82 to FY91).

The "Free Trade Zone" is a system legislated under the Okinawa Promotion and Development Special Measures Act. In order to promote trade as well as industrial location in Okinawa, the director general of the Okinawa Development Agency is to designate a free trade zone based upon the request of the governor of Okinawa Prefecture, with the recommendation of the Okinawa Promotion and Development Council, and with consultations with the heads of the concerned administrative agencies.

This "Free Trade Zone" is a system which consists of a bonded area system as stipulated by the Tariff Law, and preferential tax measures for businesses located there. This is a system allowed only by the Okinawa Promotion and Development Special Measures Act, and only in Okinawa.

As background, before the reversion of Okinawa to Japan, a free trade zone was established in 1958 based on Ryukyu Islands' U.S. Civil Government High Commissioner's Ordinance No 12: "Foreign Trade in the Ryukyu Islands."

The proposed area for the "Free Trade Zone" is approximately 2.7 hectares of government owned land under the control of the Ministry of Finance, in Naha City, and is currently provided to the American Forces in Japan. So, there were consultations by the Naha Regional Defense Facilities Administration Bureau with the Regional Finance Department which controls the property in question, concerning whether or not temporary use (joint use with the American Forces) would be allowed. Then, approval was granted after consultation with the Okinawa Regional Council on Government Property. After the required procedures were completed, the area was designated as a free trade zone.

In addition, in the FY87 Supplementary Budget, the government (the Okinawa Development Agency) has appropriated a subsidy of 1.35 billion yen toward the expenses required for land development and facilities improvement projects for the "Free Trade Zone" (of a total cost of approximately 1 billion yen). Operations are to begin in FY88.

The Definition of a Free Trade Zone

The term "Free Trade Zone" means various things. Broadly, it means "a free port city, which allows goods from foreign countries to be freely stored, consumed,

processed or manufactured, and the freedom of entry and departure of foreign trading vessels, and where customs controls and procedures are eliminated just as if it were foreign territory." Narrowly, it means a "free port district," in which "the whole or a portion of an area fronting on the harbor is simply set aside, and this is placed beyond customs boundaries."

Of the two definitions given, the latter may be said to apply to the "Free Trade Zone" to be established at this time.

The Okinawa Free Trade Zone

In the "Free Trade Zone" which is presently set to be established, raw materials and semifinished materials are to be brought in from foreign countries and manufactured or processed, as well as modified or sorted. It is intended as a "Free Trade Zone" where such distribution and intermediate stage processing will take place. Noteworthy features of preferential measures for industrial location include simplified export and import procedures, tax exemptions for foreign goods, and provision of basic buildings by Okinawa Prefecture which will operate the free trade zone. In addition, there will be some preferential tax treatment—exemptions from landholdings taxes, special depreciation, and the inclusion in losses of investment loss reserve funds. Also, in the monetary area, it will be possible to make use of the "Okinawa Free Trade Zone Promotion Fund," newly set up by the Okinawa Development Finance Corporation.

It is expected that, in Okinawa Prefecture, in terms of making use of geographical conditions, being close to Southeast Asia, and taking advantage of historical conditions as well, there will be a great contribution made to the economic stimulation of the prefecture through the establishment of the "Free Trade Zone."

Apart from the aspects of promotion and development measures for Okinawa, with our country at present having a giant trade surplus, the "Free Trade Zone" is considered a first step toward the creation of an international division of labor, or more open markets. The free trade zone is expected to be of very great significance to not only Okinawa but also Japan in contributing to the advancement of the conversion of our country's economy to an international cooperative type of economic structure.

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True Objectives of U.S. Japan Bashing in Election Year

41060076 Tokyo *NOGYO KYODO KUMIAI*
in Japanese Mar 88 pp 17-29

[Article by Commentator Hideo Akimoto: "The Real Circumstances of Japan Bashing"]

[Text] The Objective of the Recent Visit to America by the Prime Minister; Three Tasks at the Washington Press Club

The young media people are saying enthusiastically that Prime Minister Takeshita's visit to America was a success, but I think that is strange. The visit to America this time was not for the purpose of solving individual problems, so to characterize it as having succeeded or not succeeded does not fit. The media were arbitrarily saying something like Takeshita is bad at diplomacy, or diplomacy is his weak point, were they not? The question of how to manage items which another country is dealing is a matter for diplomacy and is an important domestic political problem for the receiving side. This is especially true in Japanese-U.S. relations. For example, the demand that Japan deregulate importation of agricultural products is being put forth by America as a matter for diplomacy, but the question of what to do about it is an important domestic political problem for Japan. Therefore, it is not a problem of whether one has linguistic ability or whether one has experience in diplomacy; a politician who can neatly and responsibly arrange domestic political problems can become a leader of international summit diplomacy in the future.

If we proceed from that point, it cannot be said positively that Takeshita is bad or weak at diplomacy; rather, it may be possible to say that he is the person among the three candidates for prime minister who understood that the foundation of diplomacy is to manage domestic politics. I think it probable that since the media had arbitrarily called him to task and played it up that his first hurdle was the visit to America, it had to say "he succeeded" or something or it would cease to make sense.

As to Takeshita's recent visit to America, the test of to what extent Japan will be forced to cooperate with the party in power, the Republican Party, at the time of the presidential election on 8 November can be judged by Takeshita's visit to America.

Reagan and Takeshita have known each other by sight for a long time. Takeshita could have sent a telegram to Reagan, saying that after having met him for a long time as minister of finance, he had now become prime minister, but this year that would not do. It was necessary for Japan's prime minister to go to Washington as one of the ceremonies of the U.S. presidential election. Prime Minister Takeshita, too, lost no time in going to get

acquainted, because the U.S. side said it wanted a meeting, and because in the future he would be meeting with Reagan in other circumstances.

Therefore, it had been agreed upon between the officials on both sides that individual problems between the two countries would not be taken up this time, but also it would not be fitting for Takeshita to come back having done nothing but chat about the weather. When the Japanese side made inquiries before the visit to America, asking what the individual problems were between the two countries, what problems the U.S. side would like to have solved, the response was that there were three problems at the moment.

"One is the problem of deregulation of agricultural products. As to the disposition of 10 or 12 items, while you in Japan also have conditions, it appears likely that you will accept the GATT recommendations, so that will probably be fine. As for those problems which are guideposts of deregulation of agricultural products, beef and oranges are more important. Next, the problem of entry of U.S. construction companies into Japanese public works projects is also an important problem. After that another one is stability of the yen and dollar." These three were cited by the U.S. side as the most important current individual problems. But the way we Japanese consider it, the important matters between Japan and America at present are not things like that. There is a greater variety. There are also many problems which the Japanese side must bring up. It is conceivable that, as one might expect, the fact that the U.S. side ventured to cite these three in spite of it seeming likely that, aside from the yen-dollar question, there would be many more important problems, is tangled up in the presidential election.

The Background to Economic Friction

Unreasonableness Which Piles Up Because of the Presidential Election

Though related to economic friction, usually it is diplomatic problems and international problems which become the important issues for the Democratic and Republican parties in presidential election campaigns. But in the current case, the Democratic Party is, regrettably, helpless concerning diplomatic problems. Reagan came dangerously close to becoming a lame duck over the problems of Iran and Nicaragua, but he turned the general situation completely around by the agreement to completely abolish intermediate-range nuclear missiles. Even though the difficult problem of Senate ratification remains, the fact of having opened the path toward total abolition of nuclear weapons is probably a diplomatic achievement that will go down in history.

In addition, an agreement to reduce long-range strategic nuclear weapons by one-half is being sought in negotiations between spring and early summer. Both Reagan and Gorbachev would be troubled if it were taken up

carelessly, so they are saying that difficult problems still remain, but in the negotiations at Geneva agreement has virtually been reached. This, too, will probably become a diplomatic victory for the Republican Party in the form of a Reagan visit to the Soviet Union by early summer. Therefore, the Democratic Party is helpless in regard to diplomatic problems. Such being the case, what will become the election issue? Economic problems.

As to domestic business conditions, to tell the truth, at present the real state of America's economy is growing worse each day. The deficit in the balance of government income and expenditure keeps growing. In regard to the balance of trade as well, recently America has finally increased exports by its own efforts, and signs are visible that it has begun to acquire international competitiveness, but the deficit is still large in overall terms. That situation has not been improved at all. It is because of the desire to improve it that the weakness of the dollar is continuing. But America has a presidential election, so the Republicans have to somehow or other gloss over the fact that the real state of the economy is growing worse, and show that ostensibly economic expansion is continuing. They also have to create conditions in which unemployment too will go on decreasing. The present U.S. economy is piling unreasonableness on unreasonableness. When one looks at it outwardly, the Democratic Party, too, does not have anything on which to base an attack concerning domestic business conditions.

Why has the real state of the U.S. economy ended up worsening? The answer to this is clear. It is the failure of Reaganomics. It was fine up to the big tax reduction. According to Reagan's intention, the money which people gained through the big reduction in taxes would go into savings. When that happened, the liquidity of financial institutions would rise, so it would become easier to lend money to industry. Industry would be activated by that money. Against the background of a weak dollar, export competitiveness would rise, so America would go on reducing its trade deficit. Enterprises would make a profit, payment of corporation tax would increase, and the budget deficit would go on decreasing. The aim of Reaganomics was to rebuild a strong U.S. economy in this way. It was fine up to the big tax reduction. It all went into consumption, not savings. Since it was the first tax reduction in a long time, people wanted to buy a third car or a color television set. If buying a third car, one which economizes on fuel is good, and if buying a color television set, a Japanese-made one with vivid color is good. Imports increased rapidly, so the trade deficit increased rapidly. Enterprises did not activate, so tax revenue did not increase.

In spite of this situation, outwardly the appearance of good business conditions continued, so the dollar kept dropping, but stocks were high. But around September of last year, America suddenly raised the rate of interest charged to banks. This greatly shocked financial circles. The fact that the real state of the U.S. economy was actually quite bad, that import prices would rise, and

would be reflected in domestic prices, and the danger of inflation had begun to emerge, spread through financial circles, and ended up causing the stock market crash. Since then, financial circles have used the honest method of interpretation that each time the dollar falls the economy worsens to that extent, so there is a correlation that stocks drop, leading to a drop in the dollar, leading to a drop in stocks, leading to a drop in the dollar. This frightened the Reagan administration. In Japan most stock transactions are done by institutional investors; banks, insurance companies or some such are buying stock eagerly with excess funds, but in America over 30 percent of stock transactions are done by individuals. Therefore, if stocks crashed it would directly influence the public's wallets. It would end up becoming a recession. If that happened it would be a big minus for the Republican Party in the election. What the Republican Party fears most now, before the election, is that stocks will fall. It seems very much as though a trend has emerged in which stocks fall if the dollar falls, so, although up to now Americans have not had that much interest in the exchange rate, the Republican Party thought it would be terrible if stocks fell, so at the end of last year America began for the first time to intervene in the foreign currency market. The Republican Party fears a fall in stock prices more than it fears a fall in the dollar. Therefore, if other factors operated, and a situation came into being in which stocks did not fall, America would leave things alone even if the dollar fell.

The Democratic Party's Target

In such a situation, where will the Democratic Party attack the Reagan administration, which now wishes only to keep up, by some means or other, the outward appearance of good business conditions until the election? Almost one-half of the U.S. trade deficit is a deficit vis-a-vis Japan. For almost one-half of a nation's trade deficit to be generated by trade with one specific country is unheard of in world history. The cause of this is found in America. Therefore, America will tighten up government spending as soon as possible. What is referred to as "treasury reconstruction" by the Japanese. It will end up cutting back on everything, public works, etc. Then it must turn to restricting imports. In order to face restricting imports, it must adopt a policy of tightening up across the board. However, if the Republicans did that, the prospect would become gloomy and business conditions would worsen, so they could not do that until after the election is over if their very lives depended on it.

They do not do that, they come to Japan and West Germany and say "You lower your interest rates. Build up business activity." But at this point West Germany has begun to distance itself markedly from America, saying "If we went beyond this in lowering interest rates or improving business activity for your sake, we would end up with inflation." That is because no one dislikes inflation more than the Germans. They detest the draining away of value in money they hold in the same way they detest crime. When governments fall in Germany, it

is tangled up with prices. It is probable that prices began to heat up because West Germany had cooperated with America, so Chancellor Kohl said "I quit," and turned his back on America.

Then for about the first-half of this year America will be engrossed in the battle over nomination of presidential candidates, but around 19 June when the summit begins in Toronto, when Reagan and Takeshita meet for the second time, things will more or less come into focus, so the policy debate of the two parties will begin then aimed at the November voting. Then economic policy toward Japan will begin to become a big issue. The Democratic Party will probably hound the Republicans, saying "You are being too easy on Japan. You are not firm on things that should be firm; you have become complacent. That is why things have gotten into this shape." Therefore, this time Reagan said to Takeshita: "New Year's is cold, and Congress is not in session, so the timing is bad, but come for a short visit," wanting to quickly strengthen their personal relationship anew. Then, agricultural products and public works were Reagan's concerns when he said, "Please clear up all the individual problems by the time we meet for the second time in Toronto. That is, deregulate in advance what should be deregulated. It is a question of form." For instance, Reagan's head was so filled with the idea, that when the conference began he ended up inadvertently blurting out the words "beef and oranges," in spite of the fact that it had been mutually agreed on beforehand that individual problems would not be put forth at the summit conference.

Even taking the problem of oranges, the U.S. side says that it will not negotiate unless deregulation is the premise, but what does an executive of Sunkist, which is exporting California oranges on its own, say? He says "If you will state that you will purchase a certain amount of oranges in 1 year, as a minimum in the form of a Japanese-U.S. trade agreement, as is done now, without deregulating, that amount will be guaranteed, so it will be sufficient in terms of volume. It would be nice if you enlarged the framework, but please do not deregulate, whatever you do." He is worried that if the market is deregulated Japan would probably buy inexpensive oranges produced in the Mediterranean countries and not buy California and Florida oranges. He says that if Japan restricts imports of oranges properly while harmonizing it with Japanese domestic citrus fruits, and properly enlarges the framework, America would have no complaints. When I said "Then why does Washington tell Japan to deregulate?" he said "Washington D.C. is a different place. This is because there is a presidential election." They want to create the appearance that they were not too easy on Japan, but properly insisted on deregulation.

In that case, what about beef? To be honest, the domestic supply of beef is probably insufficient. Therefore, like it or not, we will probably have to raise the import ceiling by a considerable amount. It is to be expected that

Japanese-U.S. negotiations will be concluded satisfactorily because of the raising of the ceiling. To begin with, the U.S. livestock industry is not all that eager to sell beef to Japan. They say that they dislike selling to Japan because it takes a lot of work. Japanese trading companies use a method by which they buy so many dozen tons of shoulder, so many dozen tons of round and so many dozen tons of flank, but that sort of thing is not done in America. A Chicago entrepreneur said that in the past he exported large quantities to Japan, but in the end he could hardly tell how much profit he had made. America says that there is no use negotiating unless Japan promises to deregulate, but actually, U.S. entrepreneurs request that we not deregulate beef either. That is because if beef were deregulated that amount would end up coming in from Australia. America itself restricts imports, does it not, because Australian meat is inexpensive. If one wonders who, then, is making such a fuss about deregulation, it is the meat packers. In addition, politicians want the banner of deregulation.

Demands as Election Measures

Presidential elections attract all the attention; a president's term of office is 4 years. Furthermore, the term of office for a member of the Lower House is 2 years. That for the Senate is 6 years, but one-third are elected every 2 years. Therefore, it is an arrangement by which elections for all members of the Lower House and one-third of the members of the Upper House are held at the same time as the presidential election. To members of Congress the presidential election is also important, but their own elections are important too, so they do their best.

In the midst of such an election campaign, on the one hand, congressmen with urban constituencies in particular are beginning to say "government finances have gotten too messed up for Congress too, so let us cut down on subsidies. Among subsidies, are not those for rice and cotton a bit unreasonable?" America's subsidies for rice and cotton are huge, are they not? So far as exports go, America is completely beaten by Thailand, so, naturally, surplus rice goes on piling up. In America old rice, and still older rice, go on increasing. It comes to the point of people saying "Can we give a subsidy for that? We will cut it." Now congressmen from rice-producing states will lose the election if subsidies are cut, so they want by some means or other to eliminate the surplus rice and, want to increase the crop area for rice in order to get more subsidy. Therefore, they think "Is there not some place that eats a lot of rice? There is Japan, isn't there? America does all kinds of things for Japan, so we will sell the rice to them." That is, they want to sell rice to Japan as a countermeasure for U.S. subsidies. Then even congressmen from such places as New York, Los Angeles, San Francisco and Chicago, industrial states [as published] which have nothing to do with rice, say "Yes, yes," and receive political contributions from rice-state congressmen.

As to why this is so, in America the "homeless people," about whom you have heard, are increasing rapidly, and they gather in the vicinity of large cities, so rice-state congressmen make political contributions to industrial-state congressmen, telling them "please use this as though you had donated it to the cost of facilities for housing the homeless." They are forming a united-front setup, saying "in return, please work with me on promoting deregulation of rice." Thus they create an appearance just as if it were the opinion of the entire U.S. Congress, and are putting pressure on Japan, are they not? This, too, will only last until the presidential election.

This is a state of affairs which is not publicized, as one would expect, so when I returned from America and met one of the highest leaders of the Liberal Democratic Party and told him about the problem, saying "You will have to persevere a bit longer regarding rice, so please do not compromise in an unwise manner. After all, circumstances will change as soon as next winter has passed," he was astonished.

Thus, presidential elections exist, so, though they are not the Olympics, Japanese-U.S. economic relations will get tense once every 4 years. This year economic policy toward Japan will become a big issue, so tension will rise much more than in the average presidential election. This, truly, is the kind of background in which agricultural products exist.

The Mastermind on Entrance Into Public Works is Bechtel

This has no direct relation to agricultural products, but there are demands to let leading U.S. companies into Japanese public works. They have come with the argument that even Japan's Ohbayashi-Gumi, Ltd. recently received an order for subway construction in New York. But it even took Ohbayashi 10 years before it obtained a construction contract. It was not until it had gone on steadily piling up results in Japan that its qualifications to also enter public works in America emerged; it is unreasonable to come out without any warning and say "let us do it!"

Then why does America talk about public works at this point? Is it that it first made Japan create opportunities for work by telling it to waken domestic demand, and then climbed on board? If we look a little deeper, it is telling us to let in Bechtel, a construction company headquartered in America's San Francisco. It would not do to put forward only a specific company, so it talks as though it is a demand of the entire industry.

What is this Bechtel? It is the world's largest construction company; it can, for example, rebuild Beirut, which is in a state of ruin, exactly as it was before, that is completely building the capital of Lebanon by one company, so it is quite a company; but who are the executives of this

company? Before the formation of the Reagan administration Secretary of State Shultz and Secretary of Defense Weinberger were both upper level executives. Then, since their California friend Reagan became president from, they participated in the administration. But the Reagan administration will soon be over. When that happens they will have to go back to Bechtel. Therefore, they have to take back with them a souvenir from Washington. Weinberger hastily resigned before Shultz, saying "I will return a bit before you and make preparations, so everything will be fine." Then he said to Shultz "I will arrange things so that you can return too, so, in exchange establish an inroad by which we can participate in Japanese public works." This is the basis of the public works problem.

Thus, when truly nasty Japanese-U.S. relations have surfaced along with the election, there is the background that today's Japan must be bashed.

What Is the Lesson of Semiconductors?

The cause of the semiconductor problem lies with Japan too. It made an agreement, knowing that it could not carry it out. That is not good. It went ahead and promised, saying "Yes, yes. It is fine," with the easy-going idea that the atmosphere would probably change in another year, that it would probably be alright if it made an agreement to gain time. No one keeps the promise. Even if a year passes, the situation will not change. Such being the case, it is, unfortunately, not unreasonable for America to become angry.

But one more thing that America is very nervous about in regard to semiconductors is that they are the root of the defense industry. Let us suppose, for example, that the president pushes the button controlling nuclear warfare. If an important part of that button were a Japanese semiconductor product, it would become "a security problem" in the view of U.S. defense authorities. Semiconductors cannot be compared directly with agricultural products, and the like. For one thing, they make good material for the U.S. side to catch Japan on the question of defense.

Will the Strong Yen Continue?

As stated earlier, America is not in a mood to seriously treat its own illness until after the presidential election. Everything is in a posture of waiting until after the election, so the strong yen will continue for some time. One must look at it that way.

The problem is that since America is pretending to be dead until the presidential election, there is the matter of how high the yen will go by that time. In regard to this I, too, recently went to America and asked the opinion of finance economists, and most of them said that it should probably be viewed as approaching 100 yen to the dollar. It is probable that when the presidential election is over America will finally come to its senses, make up its mind

to go through the hardship of recession, and reach the point of earnestly attempting to rebuild its economy. How far will the dollar be redeemed when that happens? That will probably be the stabilizing point for the next yen-dollar exchange rate, and most economists viewed it as probably settling down between barely 120 yen to the dollar and 115 yen to the dollar.

There are in America about 10 persons, very strict in their view of currency exchange, who are called "America's exchange extremists," and these people estimate that the rate will probably become 95 to 96 yen to the dollar before the presidential election, and will be lucky to get to 100 yen to the dollar even if the dollar is redeemed. This time I met an expert who said "Do you know the exchange rate which was stable for the longest time before World War II? It was 2 yen to the dollar." Now it is 126 yen to the dollar. If one redesignates the denominations to 1/100th it is 1 yen 26 sen. If it was 2 yen to the dollar before the war, 126 yen now is a weak yen, so it would be permissible to go below 1 yen. Therefore, there are even people who say that it would not be the least bit odd to go below 100 yen to the dollar. Since there are even people who have that view of exchange rates, it will not swing to a weak yen all that easily.

The Important Point in Future Japanese-U.S. Negotiations

Even looking at the problem of agricultural products, it is clear that there are very many parts of the U.S. side which are unreasonable demands, and if we look at agricultural products in global terms it is in a state of oversupply. Therefore, at this point we must also consider trade in agricultural products in a fundamental manner. With one dispute after another, now an international viewpoint regarding agriculture has finally emerged. Even at summit conferences, agricultural problems finally emerged for the first time last year at the 12th Venice summit. One current idea is probably that: "The surplus supply will not be remedied unless those items included in agricultural protection policies, which each country adopts, are dropped in order to somehow balance the state of surplus supply in agricultural products; let us all consult together; it is very difficult to solve agricultural problems by internal pressure alone. Let us mutually improve with skill the structure of agriculture by a model which uses outside pressure."

However, Japan is not a nation which exports agricultural products, so it is to be expected that Japan should be beyond the bounds of those who make comments because of surplus supply, but Japan too must turn its eyes to the problem of structural improvement. However, it is not a problem which should be settled between two countries. The matter of how to proceed should be debated mutually at a venue among many countries; for Japan and America to act unilaterally appears in international terms to resemble black market trading. If existing institutions are insufficient, create something

like an international agricultural conference, and there, since even America has many strange things concerning agricultural policy—strong protectionist policies and import restrictions—go on debating the necessity for structural improvement in Japan's agriculture too, while also taking up these matters for discussion.

I think this is the orthodox way of doing things, but this year America has the special matter of the presidential election, so even if it understands it to be orthodox, it cannot say so, and tells Japan to do as she is told. Speaking from the Japanese-U.S. power relationship, Japan cannot totally reject America's demands, saying "No, you cannot have it that way," but it is a matter of just waiting until the presidential election is over while giving judicious answers. I, too, recently went to the Washington liaison office of the Central Union of Agricultural Cooperatives, and told them "What are you making a fuss about. It is a few months more. If you grit your teeth and wait, time will pass. It is better not to make a clumsy compromise."

Japan is too lacking in policy concerning the agriculture problem. Since it did nothing, in the end the problem was taken as far as GATT. In this case Japan was sure to lose. When it is taken to GATT it is considered by a panel which does not include the concerned parties and whose members are ignorant of the true situation of Japanese agriculture, right? It turns out that the one lodging the complaint is America, and the one against which the complaint is being lodged is Japan, the richest nation in the world, so the answer emerged accordingly. If the most dominant figure lodges a complaint against the richest upstart, it ends up being a matter of contempt for rich upstarts.

Since everything would be lost if it were taken to GATT, our thinking was to avoid this, but to somehow or other buy time by negotiations between the two countries, and wait for a change in the situation. But since we had no policy, we did nothing. Therefore, we were quickly caught. Even rice will go poorly for us if it is taken to GATT in this manner. As usual, the vice chairman of the RMA (Rice Millers of America) says something like he will take it to GATT, but if it is taken to GATT our position will be weak as the country with a trade surplus. Moreover, Japan will be in a weak position if it is taken to GATT with the explanation that "We know that rice growing is the mainstay of Japanese agriculture. Therefore, we are not telling Japan to deregulate rice. We are saying that it is funny not to buy even one grain of rice." If it is taken to GATT, there is danger that it will escalate, with people saying "No, it should be deregulated." Therefore, this year we must turn our eyes to the rice question.

Be that as it may, in America a debate on deregulation of rice has begun because of subsidies, so, as might be expected, we must go on doing our best until the presidential election, which is the big watershed.

The Background to Domestic Pressure for Deregulation of Agricultural Products

When we turn our eyes inward, the perception is held that Japanese agriculture is extremely over protected. At any rate, it is felt, in the manner of a religious faith, that if they but grow rice, the livelihood and production of farmers are guaranteed, and they are given very preferential treatment in terms of the tax system. The result is the interpretation that things which are very expensive in international terms are being forced upon consumers. This view is beginning to crumble, but in overall terms there are still many quarters in which this image is very difficult to eradicate. And people do not try to learn about agriculture. For instance, they say unreasonable things such as "it is natural that America is angry, saying, 'It is outrageous that Japan restricts imports of as many as 22 agricultural products,' since they restrict imports, such things as food processing also become expensive," or "the selfishness of such farmers leads to import restrictions on Japanese industrial products." About how much would America's annual exports to Japan grow if Japan were to deregulate all 22 agricultural products as America tells it to? Whether calculated by American officials or Japanese officials, it is the same. No matter how hard America tries, it would not increase more than about a mere \$700 million or \$800 million. Would it influence U.S. imports of industrial products just because exports to Japan increased by \$700 million or \$800 million? People think that the amount of agricultural products being restricted is a huge amount. They completely lack such knowledge, and do not make any effort to find out. And then they say that import restrictions are outrageous. Everyone knows about beef and oranges, but it would probably be useless to ask them to cite even one other thing they know from among the remaining 20 items.

Therefore, what I have also been saying to the Central Union of Agricultural Cooperatives for some time is "there has already been enough publicity directed inside agricultural, please direct publicity outside agriculture." Unless we do that, misunderstandings will never be resolved, no matter how much time passes. For example, since such countries as France and Germany are traditionally agricultural countries, they have a very wide understanding of agriculture, so they have been protecting agricultural products and restricting imports for a long period of time. Therefore, even though America proposed talks on trade in agricultural products, they did not even give an answer for 10 years. That is because when one writes it out, protection of agricultural products and restricting imports is an economic problem, but each item is a political problem. It is not at all possible to tell people to do such things as put political problems on the table of economic problems and chop them up by the tricks of trade negotiations, so they have been continuously rejecting the idea, saying that they had no wish to hold negotiations on agricultural products with America.

Until about 10 years ago, even America had no thought of negotiating with Japan on agricultural products. It knew that Japan was restricting imports to some extent,

but Japan was America's best customer for agricultural products, so it thought that if it were to negotiate on agricultural products with Japan, it would be after negotiations with Europe had been completed. But Europe, which was the vital one, did not answer, so if America called Japan, which would come promptly if called, and said "You are buying a lot, but buy more!" Japan would probably do as it was told, and, using that as a stepping stone America, would say to the EC's Agricultural Committee "Even Japan, which is buying so much, is striving to buy more, is it not? How can you act like you are in spite of this?" Mr Straus of the Democratic Party once called Japan's representative in order to use it as this kind of material. Thereupon, he clashed in a heated battle with such persons as then Minister of Agriculture, Forestry and Fisheries Nakagawa. This is effective. Such things gradually began to be effective, so last year agricultural trade emerged for the first time as a big task at a summit conference. Until then, Europe had declined to deal with America at all on the subject. Europe waged such a thorough resistance against America because of the understanding which every class of European citizenry had toward agriculture. They devoted all their energies, believing it to be not only a problem of farmers, but the kind of problem requiring joining with consumers, considering agriculture, and saving what is to be saved. That was the difference between Europe and Japan. From now on we must publicize our opinion more to those outside agriculture; we must clear up misunderstanding. They will understand if we inform them.

Look at the International Current of Structural Improvement

Among the leaders in financial circles there is a person who originated in Gunma Prefecture. He lived in Gunma through middle school under the old system, and has been in Tokyo continuously from his days in an old-system high school, through college and his work in a company. We had a conversation that went like this: "I suppose that up through your middle school days you watched people growing devil's-tongue." "Yes. I watched them. After all, I was able to go to college because we had devil's-tongue." "Are you aware that importation of devil's-tongue is prohibited?" "No. Imagine that. It is prohibited to import devil's-tongue. Why is that?"

In other words, the problem is misunderstanding and lack of information regarding agriculture. We have big meetings at martial arts halls, tying towels around our heads and shouting "raise the price of rice." This looks very antiurban. Our taxes are low. This too looks antiurban. And we restrict imports; that boomerangs on industrial products. Thus people end up thinking of things in a short-circuited manner. If we tell them that it is not so, and ask them how much it would come to if all items whose imports are restricted were deregulated, they will understand, and say "Imagine that. Is that all? In that case it is different."

We should have appealed for understanding to people outside of agriculture. It is not too late to start even now, so I think we should do it. We must build something to counter the Keidanren's public relations center. It will be just right if we fight on better than even ground. While anticipating that America will return to its senses soon, and begin a full-fledged rebuilding of its economy, the Japanese side must go on firmly defending what should

be defended as its national interest. But in the midst of the defense, Japan probably must keep an eye on international trends, on the international current of structural improvement. Because, even in environmental terms, it has become very difficult for a unique Japanese agriculture to be accepted as valid.

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